

The State of Illinois provides a manufacturer's purchase credit in addition to the exemption for manufacturing machinery and equipment. Purchasers of manufacturing machinery and equipment that qualifies for the manufacturing machinery and equipment exemption earn a credit in an amount equal to a fixed percentage of the tax which would have been incurred under the Use Tax or Service Use Tax. 35 ILCS 105/3-85; 35 ILCS 110/3-70. (This is a GIL.)

November 21, 2000

Dear Xxxxx:

This letter is in response to your letter dated September 26, 2000. The nature of your letter and the information you have provided require that we respond with a General Information Letter, which is designed to provide general information, is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120(b) and (c), which can be found on the Department's website at <http://www.revenue.state.il.us/legalinformation/regs/part1200>.

In your letter, you have stated and made inquiry as follows:

COMPANY requests a General Information Letter in response to the following scenario:

Our client owns and operates a manufacturing facility located in northern Illinois with a distribution center located in southern Illinois. The finished products are shipped from the manufacturing facility directly to the distribution center where they are stored until sold. Upon sale, the product is either shipped from the distribution center directly to the customer or, in some instances, the customer takes possession of the product at the distribution center by having their trucks loaded at a storage silo.

The manufacturing facility and the distribution center use an identical Illinois Business Tax number and their sales are reported on one Form ST-1.

Our client is involved in the Manufacturer's Purchase Credit program. Even though the manufacturing process takes place a considerable distance from the distribution center, wouldn't our client's manufacturer's purchase credits satisfy sales or use tax liability on production-related items at the distribution center such as lift trucks, pallets, etc.?

Please find enclosed a copy of 86 Ill. Adm. Code 130.331 governing the Manufacturer's Purchase Credit. The State of Illinois provides a manufacturer's purchase credit in addition to the exemption for manufacturing machinery and equipment. Purchasers of manufacturing machinery and equipment that qualifies for the manufacturing machinery and equipment exemption earn a credit in an amount equal to a fixed percentage of the tax which would have been incurred under the Use Tax or Service Use Tax. 35 ILCS 105/3-85; 35 ILCS 110/3-70. As you can see from Section 130.331, production related tangible personal property means all tangible personal property used or consumed

in a production related process by a manufacturer in a manufacturing facility in which a manufacturing process described in Section 2-45 of the Retailers' Occupation Tax Act takes place, and all tangible personal property used or consumed by a manufacturer in research and development regardless of use within or without a manufacturing facility.

Section 2-45 defines "manufacturing process" to mean the production of an article of tangible personal property, whether the article is a finished product or an article for use in the process of manufacturing or assembling a different article of tangible personal property, by a procedure commonly regarded as manufacturing, processing, fabricating, or refining that changes some existing material or materials into a material with a different form, use, or name. In relation to a recognized integrated business composed of a series of operations that collectively constitute manufacturing, or individually constitute manufacturing operations, the manufacturing process commences with the first operation or stage of production in the series and does not end until the completion of the final product in the last operation or stage of production in the series.

Generally, a warehouse or distribution center located off premises of the manufacturing plant is not a manufacturing facility where a manufacturing process as the term is defined in Section 2-45 of the Retailers' Occupation Tax Act occurs. Therefore, manufacturer's purchase credit cannot be used on items at the distribution center such as lift trucks and pallets.

I hope this information is helpful. The Department of Revenue maintains a website, which can be accessed at [www.revenue.state.il.us](http://www.revenue.state.il.us). If you have further questions related to the Illinois sales tax laws, please contact the Department's Taxpayer Information Division at (217) 782-3336.

If you are not under audit and you wish to obtain a binding Private Letter Ruling regarding your factual situation, please submit all of the information set out in items 1 through 8 of the enclosed copy of Section 1200.110(b).

Very truly yours,

Melanie A. Jarvis  
Associate Counsel

MAJ:msk  
Enc.